

VZCZCXRO4114  
PP RUEHDT RUEHHM  
DE RUEHCHI #0093/01 1710052  
ZNR UUUUU ZZH  
P 200052Z JUN 06  
FM AMCONSUL CHIANG MAI  
TO RUEHC/SECSTATE WASHDC PRIORITY 0211  
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS  
RUEHBK/AMEMBASSY BANGKOK PRIORITY 0490  
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0028  
RUEHCN/AMCONSUL CHENGDU PRIORITY 0034  
RUEHCHI/AMCONSUL CHIANG MAI PRIORITY 0241  
RUEHLM/AMEMBASSY COLOMBO PRIORITY 0001  
RUEHGZ/AMCONSUL GUANGZHOU PRIORITY 0017  
RUEHJA/AMEMBASSY JAKARTA PRIORITY 0007  
RUEHUL/AMEMBASSY SEOUL PRIORITY 0005  
RUEHGH/AMCONSUL SHANGHAI PRIORITY 0017  
RUEHSH/AMCONSUL SHENYANG PRIORITY 0019  
RUEHIN/AIT TAIPEI PRIORITY 0015  
RUEHKO/AMEMBASSY TOKYO PRIORITY 0010

UNCLAS SECTION 01 OF 03 CHIANG MAI 000093

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E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [ETTC](#) [TH](#)

SUBJECT: GOLDEN TRIANGLE TO BECOME GOLDEN GATEWAY

REF: A) CHIANG MAI 18 B) (05) CHIANG MAI 253 C) (05) CHENGDU 527

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1. Summary. Northern Thailand's physical proximity to southern China has led the eight provinces of upper northern Thailand to promote the region as the "Golden Gate of Trade to the World." Although the area is still better known as the "Golden Triangle" of opium fame, new river, air and land routes are increasing trade and transit opportunities in a number of directions. End summary

2. Hoping to take advantage of rapid economic development in the Greater Mekong Subregion (GMS), officials in upper northern Thailand adopted in February the moniker of "Golden Gate of Trade to the World". Besides the upper GMS countries (China, Laos, Cambodia, Burma, Vietnam and Thailand) the region is reaching out to Bangladesh, India, Burma, Sri Lanka, Bhutan and Nepal under the BIMSTEC (Bangladesh, India, Sri Lanka, Thailand Economic Cooperation) trade grouping.

Transit Route

3. Thailand's potential as a transit country, especially for Chinese products, is highlighted by a claim that turbines for a major Chinese dam are to be shipped from Shanghai to China's Yunnan province via an extraordinarily long route that passes through Thailand. The shipping route, according to a senior Thai customs official, will take the turbines by sea around Vietnam and Cambodia to Thailand's southern port of Laem Chabang, where the turbines are to be offloaded for transport by road to northern Thailand and, finally, shipment by boat to Yunnan via the Mekong River. The customs official claimed that such heavy equipment is more costly to transport within China, through 4000 mountainous miles from Shanghai to Yunnan, than by sea freight and land transport via Thailand and finally by water again on the Mekong River.

4. Even discounting for some boosterism, Northern Thailand and southern China are actively engaged in a broad expansion of trade, investment, educational exchange (ref a) and tourism. Thailand's hope for the Mekong to serve as a "Golden Gateway" for trade is echoed by China's interest in using the river as a link to ASEAN. Exports from Yunnan can be shipped via the Mekong and connecting road to Thailand's Laem Chabang seaport in

the Gulf of Siam in a day and half; shipments in the opposite direction require an extra day.

#### New Industrial Zone to Attract Chinese Investment

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¶5. To further attract Chinese investment and trade, the Thai cabinet in February approved a proposal to establish a "Border Economic Zone" (BEZ) and industrial estate on 6,400 acres at Chiang Khong District, Chiang Rai province. Although an earlier plan to build an industrial estate in Chiang Saen ran into local opposition over historical preservation issues, the new location is less controversial and expected to proceed. Chiang Rai Chamber of Commerce President Pattana Sitthisombat told participants in a logistics seminar in March that Chinese private and public sector representatives, including the Director General of the New Industrial Estate in Kunming, had visited the Chiang Khong site.

#### Kunming-Bangkok Highway Due for Completion in 2007

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¶6. Although the original Chiang Saen site offered better access to the Mekong, the BEZ site at Chiang Khong will tie in with the road now under construction through Laos to the Chinese border. The section through Laos, funded by the Asian Development Bank (ADB), is expected to be completed in 2007. According to an earlier Consulate Chengdu report (ref c), the upgrades on the final Chinese portions of the road should also be ready in 2007. Still awaiting a Lao government decision and a source of funding is the site for the bridge over the Mekong River linking Huay Sai in Laos to Chiang Khong. Once all sections are complete, the 2,100 kilometer Kunming-Bangkok highway will contribute to expanded trade among the GMS countries.

¶7. Traders in the north increasingly expect this land route via the Kunming-Bangkok Highway to be more reliable than the Mekong,

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which has suffered from unsteady water volume in the past few years because of dam construction upstream in China. Rachan Veeraphan, former President of the Chiang Mai Chamber of Commerce, said that trade by land via Laos would be safer and more secure than via the Mekong, which flows past unstable regions in Burma.

#### Mekong River Carries Increased Trade

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¶8. Even though the road may eventually prove more viable, trade along the Mekong between northern Thailand and Yunnan has already increased dramatically. Bank of Thailand annual reports show that river trade grew from USD 9 million in 1996 to USD 129 million in 2005. Altogether, this trade volume accounts for 3 percent of the total foreign trade of northern Thailand in ¶2005.

¶9. During 2004-2005, the Chiang Saen port recorded 2500 boat dockings (one boat may be docked several times in a year). Statistics from the Chiang Saen Customs Office showed that exports by weight increased from 84,520 to 154,660 metric tons from 2003 to 2005, with an annual growth rate of 35 percent during that period. Chinese statistics are much higher than the Thai figures, reporting over 500,000 metric tons of goods. Bank of Thailand official Sakorn Srisawat explained that the higher Chinese numbers include cargo that is offloaded in Burma before entering Thailand, implying that substantial smuggling takes place.

¶10. To accommodate the hoped-for growth in river transport, the RTG last December announced plans for a second Chiang Saen port (ref b), with USD 50 million in infrastructure. Deputy Minister of Transportation Phumtham Wechayachai returned late last year from a trip to Yunnan sold on China's "Look South Economic Strategy" and convinced that Chinese vessels had the

potential to ship a million metric tons of goods on the Mekong, including 500,000 tons of consumer goods, 300,000 tons of oil and 200,000 tons of natural gas. (Meanwhile, Thai business newspaper Prachachart Thurakit reported that Phumtham's sister is a major holder in one of Bangkok's largest sea freight companies.)

¶11. The Deputy Minister also touted the tourism potential of the Mekong. Noting that the current port will serve tourist boats once the new port is operational for trade, Phumtham predicted that one-third of the three million Chinese tourists who visit Jinghong in southern Yunnan province annually could be expected to sail down to northern Thailand. (Comment: under current tourism conditions this appears to be a wildly optimistic statement.)

¶12. The Early Harvest Program agreement on fruit and vegetable products that Thailand and China signed in June 2003 is one factor in increased Mekong River shipments. Although Thai fruit exporters preferred sea transport through Laem Chabang port to reach the large Chinese importers and distributors in eastern China, trade tonnage via the Mekong in 2005 leaped 55 percent as Thai exporters sent natural rubber and vehicle oil to Yunnan. The value of natural rubber exports alone nearly doubled, from USD 21 million to USD 41 million, in one year.

#### Chinese Dams Cause Problems Downstream

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¶13. While Thailand sees the Mekong River as a trade route, as well as a fishing and tourism resource, for China the river is also a source of energy. Ongoing hydropower dam construction has restricted water volume on the Mekong to the point that it is often insufficient for shipping. During this year's dry season from January to May the water level dropped so low that boats were forced to a stop during one week, with some stuck in the middle of the river.

¶14. Thai authorities and business people express optimism that China will take steps to better manage the water level when all of the dams are completed. The Deputy Secretary General of the Thai Maritime Department told a March logistics seminar in Chiang Rai that water volume is not a barrier to Mekong shipments because China holds only 17 per cent of the total volume of water in the Mekong River. (An environmental NGO

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pointed out, however, that in Chiang Saen, 75 percent of the water comes from China.) He assured the audience that Chinese dams on the Mekong would not affect boat operations because the narrow gorges along the Mekong in China were not conducive to holding large volumes of water in large reservoirs. The Chinese dams, he said, are intended solely for hydroelectricity generation rather than agricultural production and would allow water to be released from the dams to flow down to lower part of the Mekong Delta.

¶15. Bank of Thailand staff also claimed that Chinese authorities facilitate boat operations on the Mekong by announcing a water release schedule for the dams. They noted that the water level was unusually low this past dry season due to accelerated dam construction and would likely return to normal as construction tails off. Even under these conditions, Mekong shipments greatly reduce transportation time from Thailand to some parts of China, these officials claimed.

¶16. A less sanguine view emerged from conversations with journalists from Laos, Cambodia, Thailand, Burma, Vietnam and China attending a seminar sponsored by the Indochina Media Memorial Foundation in Chiang Mai on "Managing the Mighty Mekong". These journalists reported hearing many complaints from Thai NGOs and villagers about the negative effects downstream of Chinese dam building and rapids-blasting. A China Daily reporter who was part of the training appeared taken aback by the critical accounts the students had heard of Chinese activity.

## Chiang Mai Aims to be Aviation Hub

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¶17. Growing aviation links and airport improvements offer a third alternative to river and road transport. Air cargo at the Chiang Mai International Airport accounts for 60-70 percent of the total value of imports and exports for foreign companies at the Northern Region Industrial Estate's Export Processing Zone in nearby Lamphun. Electronic assembly plants there rely on air cargo to ship finished components to assembly plants located primarily in Japan and other places in Asia, the EU and the U.S.

¶18. Chiang Mai airport's on-going USD 52.5 million upgrade is scheduled for completion in 2007, with the aim of establishing the northern city as an aviation hub for the Greater Mekong Subregion and South Asia. The number of passengers at Chiang Mai grew from 2 million in 2003 to 2.9 million in 2005, with direct flights to Kunming and Jinghong in China as well as to Laos, Taiwan, Singapore, Burma, Malaysia, and Bangladesh. With some routes available only once or twice a week, however, many northern travelers still find it more convenient to fly through Bangkok to these destinations.

¶19. Comment: The growth in river, land, and air routes is creating more trade and tourism opportunities between Northern Thailand and China's southwestern Yunnan. Educational exchanges are flourishing as well. While each route has its problems - low water levels on the Mekong, incomplete sections on the highway, limited flight schedules by air - both the RTG and the northern provinces are serious about promoting the region as an economic corridor to China and for China to the Greater Mekong Subregion and are investing accordingly.

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